

# Dancing with Giants

## China, India, and the Global Economy

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*Edited by*

**L. Alan Winters and Shahid Yusuf**

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- **Analysis:** To analyze policy issues of critical concern to Singapore and contribute to policy development
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- **Communication:** To communicate research findings to a wider community and generate a greater awareness of policy issues

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# Foreword

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Hardly a day passes without a newspaper article, television show, or Internet blog story about the rise of China and India in the global economy. There are many reasons for this public interest. Never before have such large economies—with a combined population of 2.3 billion—grown so fast for so long: GDP growth in China averaged 9.1 percent over the last decade, and India averaged 6.1 percent. Some people are fearful: Will China and India dominate the world economy? Will they consume the earth's scarce resources? Will they bid down wages elsewhere? Others are curious: Can China and India sustain such impressive growth rates, especially in light of perceived fragilities (China's financial sector and India's public debt being notable examples)? Others seek lessons: Noting that neither China nor India is pursuing an “orthodox” model of development, they want to know how these economies did it, and whether there are lessons for other developing countries.

Because of this heightened interest among the general public, media coverage of China and India tends to emphasize the human dimension—stories comparing a factory worker in China with a software designer in India, or interviews with foreign investors comparing the two countries' prospects, or pictures contrasting the booming worlds of Shanghai and Mumbai with abject poverty in rural China and India.

*Dancing with Giants* considers the story from a different vantage point. It takes a dispassionate and critical look at the rise of China and India, and asks some difficult questions about this growth: Where is it occurring? Who is benefiting most? Is it sustainable? And what are the implications for the rest of the world? By bringing to bear the best available data and analytical tools, the book can provide answers that are much more nuanced than the typical news story. To take one example, the book demonstrates that, despite their similar size, the two Giants are not the same—China's role in the global economy is much greater than India's, with important implications for other countries.

*Dancing with Giants* considers whether the Giants' growth will be seriously constrained by weaknesses in governance, growing inequality, and environmental stresses, and it concludes that this need not occur. However, it does suggest that the Chinese and Indian authorities face important challenges in keeping their investment climates favorable, their inequalities at levels that do not undermine growth, and their air and water quality at acceptable levels. Discussion of how these issues affect the Giants has relevance as well to policy makers elsewhere. For example, despite their very different structures and traditions of governance, both countries have generated effective constraints on executive power, and that has played an important role in their growth.

*Dancing with Giants* also considers China's and India's interactions with the global trading and financial systems and their impact on the global commons, particularly with regard to climate. Examining the effects that they will have on the economic circumstances and fortunes of other countries, the various chapters find that

- The Giants' growth and trade offer most countries opportunities to gain economically. However, many countries will face strong adjustment pressure in manufacturing, particularly those with competing exports and especially if the Giants' technical progress is strongly export-enhancing. For a few countries, mainly in Asia, these pressures could outweigh the economic benefits of larger markets in, and cheaper imports from, the Giants; and the growth of those countries over the next 15 years will be slightly lower as a result.
- The Giants will contribute to the increase in world commodity and energy prices but they are not the principal cause of higher oil prices.
- The Giants' emissions of CO<sub>2</sub> will grow strongly, especially if economic growth is not accompanied by steps to enhance energy efficiency. At present, a one-time window of opportunity exists for achieving substantial efficiency improvements if ambitious current and future investment plans embody appropriate standards. Moreover, doing so will not be too costly or curtail growth significantly.
- From their relatively small positions at present, the Giants will emerge as significant players in the world financial system as they grow and liberalize. Rates of reserve asset accumulation likely will slow, and emerging pressures will encourage China to reduce its current account surplus.

Developed as a collaborative venture among the World Bank's research department and East and South Asia regions, and the Institute of Policy Studies

in Singapore, this book is an important contribution to the global campaign for poverty reduction. With about a third of the world's poor people living in China and India, these countries' performance will be critical to alleviating global poverty. Moreover, the fact that China and India have been able to lift hundreds of millions of people out of poverty in the past few decades provides hope for the rest of the world. *Dancing with Giants* provides knowledge that will help turn that hope into reality.

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# Acronyms and Abbreviations

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AGE	applied general equilibrium
ALT	alternate scenario
BAU	business-as-usual scenario
BAU-H	business-as-usual scenario with high growth variant
BERI	Business Environment Risk Intelligence
CGE	computable general equilibrium
CO <sub>2</sub>	carbon dioxide
CPC	Communist Party of China
EFTA	European Free Trade Association
EU25	25 countries of the European Union
FDI	foreign direct investment
FYP	five-year plan
GDP	gross domestic product
GE	General Electric
GIC	growth incidence curve
GTAP	Global Trade Analysis Project
GtC	giga tonnes of carbon
HIC	high-income country
HS	Harmonized System
ICRG	<i>International Country Risk Guide</i>
IEA	International Energy Agency
IIT	Indian Institute of Technology
IMF	International Monetary Fund
IT	information technology
LCD	liquid-crystal display
LIC	low-income country
mbd	million barrels per day
MFA	Multifiber Arrangement
MIC	middle-income country

MNC	multinational corporation
Mtoe	million tons of oil equivalent
NA	national accounts
NBS	National Bureau of Statistics
OPEC	Organization of the Petroleum Exporting Countries
PC	personal computer
PPP	purchasing power parity
R&D	research and development
SITC	Standard International Trade Classification
TFP	total factor productivity
TVE	township and village enterprise
USEIA	U.S. Energy Information Administration
WHO	World Health Organization
WTO	World Trade Organization

*All dollars are U.S. dollars unless otherwise noted.*